

## **California Independent System Operator Informal Comments on the April 9, 2015 Workshop and Concept Paper**

### **1. General Comments**

- a. **Overall Framework:** *Does the proposed two-part approach sufficiently address issues raised in the JRP scoping memo and, in general, will it provide for an improved reliability planning framework? Will the proposed modeling approach give parties a better understanding of the potential for inefficient resource retirements within the next ten years?*

### **California ISO Response – Question 1.a.**

The original scoping memo in the proceeding identified six issues that would be addressed in Track 2 of this proceeding. These issues include the following:

1. The process for developing agreed-upon input assumptions/scenarios and methods for collecting data on forward contracting and ownership of units.
2. Methodology for completing forward planning assessments.
3. Appropriate forward planning horizon for the forward planning assessments.
4. The additional studies conducted by the CPUC, CEC or CAISO that may be needed for ongoing assessments.
5. Whether establishing a procurement database would enhance the efficiency of any ongoing assessments and what confidentiality rules would cover such a database.
6. Whether Track 2 should create a process for California to conduct a periodic planning assessment and how often such assessment should be conducted.<sup>1</sup>

The concept paper primarily addresses items 2, 3, and 5 but does not devote sufficient attention to items 1, 4 and 6. A process for establishing all agreed-upon assumptions and the respective inputs to be provided by the CPUC, CEC, CAISO, or other parties, as well as the respective parties' roles and responsibilities, should be clearly outlined. Additionally, as considered in item 6 there needs to be a clear process for what occurs once a resource is identified as at risk of inefficient retirement. Defining these elements is critical to provide all of the necessary information and processes for a thorough risk of retirement assessment and to provide market participants information to inform procurement and retirement.

### **2. Needs and Supply Database Questions**

#### **a. General Database Questions**

- i. **Timing:** *When should Staff release the annual update of the forward needs and supply database?*
- ii. **Confidentiality:** *Which information in the proposed database should be made public and which should remain confidential? How should the CPUC report / aggregate information for local area resource contracting that accounts for confidentiality?*

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<sup>1</sup> Scoping memo, at 9-10.

**California ISO Response – Questions 2.a.i. & 2.a.ii.**

The ISO supports the CPUC staff proposal to collect contract data from its jurisdictional LSEs because it is a core component to determining if LSE procurement activities are tracking towards forecasted system needs.

The most useful time to release a final report on the forward contract data would be either as part of the annual resource adequacy proceeding or prior to the release of utility RFOs for capacity. This timing would offer market participants with the greatest opportunity to utilize the data to make informed procurement decisions.

The ISO agrees that confidentiality is an important issue to consider in administering the contracts database. It is relatively simple to aggregate system and flexible capacity data in a way that maintains individual parties' commercially sensitive information while also providing general transparency regarding the bilateral RA market. As question 2.a.ii. suggests, local capacity contracting information presents a greater challenge because a local area can have relatively few individual resources within the area. One option would be to aggregate by the size of the local area. For example, the CPUC could report aggregated information for local areas that have one to five units, six to 10 units, etc. This would give parties some idea of how the size of a local area impacts contracting activity without divulging details about specific local areas and specific generating units.

*b. Load Forecast Database*

- i. **Disaggregation:** Obtaining future needs based on CEC IEPR forecast is complicated by the need to disaggregate CEC and CAISO forecasts to reflect CPUC jurisdictional LSEs. If the CEC IEPR forecast is used to assess future needs, how should this disaggregation be performed?*

**California ISO Response – Question 2.b.i.**

The ISO has no specific comments at this time on how any such disaggregation should be performed. The ISO may comment further on this topic as Track 2 develops.

*c. Available Supply Database*

- i. **LTPP Deficit:** The difference between LTPP authorizations and CPUC-approved additions reflects an expected future deficit in the available supply database. How can this deficit be incorporated into the available supply database in a manner that is consistent with LTPP procurement targets, while not biasing what resources could fill the deficit? With what spatial / temporal granularity?*

**California ISO Response – Question 2.c.i.**

The ISO does not see a need to model generic LTPP authorizations. The ISO's proposed alternative modeling proposal, along with the results of completed LTPP authorized requests for offers, should be sufficient to provide information to the market about what resources should fill capacity shortfalls caused by procurement activities to date. Allowing the capacity shortfalls to inform procurement, as proposed below, avoids the complicated task of developing assumptions regarding the operational attributes and in-service dates of capacity that has been authorized in the LTPP but the specific operational attributes are not yet known.

- ii. **Data availability:** *In addition to information captured within the LTPP process, is any formal data request needed to more accurately capture from CPUC jurisdictional LSEs information related to available supply or retirements occurring by year within the next ten years?*

### **California ISO Response – Question 2.c.ii.**

The ISO expects that the data request outlined at the April 9 workshop captures the information that foreseeably would be needed to run the ISO's proposed production simulation.

- d. **Contracted Resources Database**
  - i. **Template:** *Does the template developed by Staff (sent as a separate attachment) sufficiently capture LSE contracting data for the purposes of this analysis? Is any data missing, or could any data be collected more efficiently?*

### **California ISO Response – Question 2.d.i.**

The ISO expects that the data request template captures the information that foreseeably would be needed to run the ISO's proposed production simulation, but likely lacks important capacity contract cost data that could help inform Energy Division's proposed study.

- ii. **Timing:** *When is the ideal time each year to have CPUC staff collect the contracting data from CPUC-LSEs? Should this request and reporting occur annually? For the purpose of the upcoming study, is it acceptable to parties to include an additional off-schedule data request?*

### **California ISO Response – Question 2.d.ii.**

Given the benefits of providing market participants with the results of this study in time for procurement for the next year discussed above, the best time to collect this data from LSEs is likely shortly after submission of the annual capacity showings for the previous year. For example, after LSEs submit their annual showings for 2016 on October 31, 2015, they would submit responses to the CPUC data request by Dec 31, 2015. These responses could then be used to inform procurement for 2017 and beyond. This would provide time to construct the necessary models and compile results in time for the next year's procurement.

- 3. **Economic Risk Of Retirement Modeling Questions**
  - a. **Stochastic Inputs:** *Are the stochastic inputs sufficient to capture expected uncertainties and variability?*
  - b. **Fixed O&M Costs:** *What should be the basis for calculating fixed O&M costs?*

### **California ISO Response – Questions 3.a. & 3.b.**

The goal of the assessment, as explained by CPUC staff at the April 9 workshop, is to provide information to market participants about current and future market conditions and needs (or lack thereof). The proposed scope of the project outlined in the concept paper is extremely ambitious. However, as noted by several parties in the workshop, there are likely significant benefits from pursuing a more focused and simplified effort. Specifically, a more simplified approach has greater chances of being conducted successfully on more than a one-time basis.

As ALJ Gamson has noted, "stochastic is fantastic but deterministic is realistic." The challenges that come from developing stochastic production simulation models are well documented in the LTPP proceeding. As such, the ISO echoes the comments provided by TURN at the workshop. The ISO encourages the CPUC staff to focus its efforts on a deterministic model before

considering the benefits of stochastic modeling. Deterministic models are much easier to develop and will still provide information to the market that does not currently exist.

The ISO also believes the modeling efforts should focus only on the forecasted system need and contracted capacity and should not try to perform a detailed effort to assess the financial viability of every resource in the system. Assessing individual resource's financial viability requires estimating at least three categories of costs: variable operating and maintenance costs, fixed operating and maintenance costs, and capital costs. There are reasonable methods to calculate, or at least estimate, the first two categories of costs for a broad range of resources. The same probably is not true for calculating or estimating the capital costs for every resource because of the variability in how specific projects are financed. While CEC provides estimates for many of these costs, they vary widely and it is unclear how the Energy Division would apply estimates to various resources. Accounting for this wide variation likely will require significant resources and is unlikely to yield accurate results. Furthermore, focusing the analysis on the sufficiency of contracted capacity to meet forecasted system needs provides objective information to guide procurement.

The concept paper proposes to develop a production simulation model that would include resources based on planned online dates and retirements but would not consider resources' contract status. The outcome of such a model is reasonably predictable. This modeling effort almost certainly would indicate that the ISO would have sufficient resources for most years and that many resources without contracts are not financially viable. However, these results will not provide any information regarding future procurement needs or considerations of which resources could retire efficiently.

As an alternative, the ISO recommends that initial studies focus on the ability of contracted capacity to meet forecasted system, local, and flexible capacity needs. Focusing efforts on the contracted capacity would provide the market with information regarding outstanding capacity needs. The benefit of this approach is that it provides all market participants information regarding the quantity and type of capacity that will continue to be needed in the future. For example, if current contracting practices have focused on peak capacity, it may identify shortfalls in meeting ramps. Additionally, it could show a resource that is considering upgrades to improve ramp rate if such an upgrade would be valued. The CPUC proposed model would not capture the need to focus on particular capacity needs while the ISO's alternative focusing on contracted resources would.

In conclusion, the ISO encourages the CPUC staff to take a simplified approach, focusing on deterministic modeling of contracted capacity and forecasted system, local, and flexible capacity needs.

- c. **Local Capacity Technical Studies:** *CAISO Local Capacity Technical Studies examine the importance of generators for local reliability. How can results of the CAISO Local Capacity Technical studies be used to understand inefficient retirements?*
- d. **Inefficient Retirements:** *"Whether a resource is determined to be at risk of inefficiently retiring is dependent upon a factor test, which encompasses both the valuable attributes of the resource and its financial situation." How can a factor test be developed to inform determination of inefficient retirement? What additional factors should be considered?*

### **California ISO Response – Questions 3.c. & 3.d.**

While the concept paper and the material presented at the April 9 workshop provide numerous details about the Energy Division's proposed study methodology, important questions remain unaddressed. Specifically, the criteria that would be used in a factor test demands greater

definition. While an uncontracted resource may not have sufficient income such that expected revenues exceed costs, that fact alone may not put a resource at risk of inefficient retirement.

- e. ***Sensitivity Studies and Benchmarking:*** *What sensitivity and benchmarking studies, in addition to what are described in this paper, should be performed?*

**California ISO Response – Questions 3.e.**

The ISO has no specific comments at this time on how any sensitivity or benchmarking studies should be performed. The ISO may comment further on this topic as Track 2 develops.

**Additional California ISO Comments**

While the concept paper offers details regarding the proposed study methodology and looks to gather information regarding the factor test, important questions remain. How will the modeling results be used? Once a resource has been identified as being at risk of retirement, what happens next?

The ISO understands that decisions regarding a specific resource are beyond the scope of this initiative but remains concerned that there is no defined process for how to deal with an “at risk” resource. At this point, assuming the factor tests are clearly identified, all that is known is that a resource is at risk of inefficient retirement. Outside the scope of Track 2, there remains the need to define a clear process for efficient resource retirement. In short, identification of the risk is only half the issue. It is critical parties in this proceeding maintain perspective on what key issues would remain unaddressed even if there were consensus on the model design and its output.